

Joe: *Still rough but
I think it is what
you need for review*

*4126
Hag Rosenthal
Peterson
Rein*

November 26, 1984

[redacted]
Deputy Director Personnel for Special Projects
Central Intelligence Agency
McLean, VA

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[redacted]
[redacted] asked that I summarize our recent discussions of the STAT development of retirement plans for Agency personnel. These plans (or plan) would primarily be designed to coordinate with Social Security for new employees but also may be applied to current employees.

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During 1984, we produced two papers discussing the range and effect of various retirement proposals. These included plans similar to those available in the private sector, plans that had been considered by Congress, and other alternatives that might be considered by the Agency. With this background information, the Agency should be in a position to respond to proposals that will be made next year to develop their own retirement system.

The second paper covered ~~the~~ full range of options that might be applicable to Agency employees. These included the consideration of 401(k) plans which will probably be a feature of any proposed new retirement system. The extent of the use of the 401(k) plan concept will largely depend on the views of the proposer.

The traditional retirement plan to be coordinated with the 401(k) plan and with social security will then be the balancing item which should be designed to best meet the needs of the Agency. The primary consideration will be the level of benefit to be provided under different retirement conditions and the cost-of-living increases to be provided after retirement. ^PThe most expensive and the most visible aspects of the current retirement systems ^{these features} will probably be the focus of the various designs for a new system. Accordingly, a full range of these ^{features} ~~systems were~~ ^{was} examined. Within the overall design it ^{is} ~~was~~ also important to consider ~~various aspects~~ ^{the} ~~of~~ ancilliary benefits such as survivor, disability, and vesting.

I understand that a good deal of discussion has centered on the definition of a career for various types of Agency employees. My recommendation is that the proposed retirement system be designed to promote and encourage the career paths that are needed. Within the parameters that we had originally discussed, and variations that are easily derived, we should be able to build a system to meet the general recruitment and retention needs of the Agency.

In evolving these needs there are three critical ^{retirement eligibility} points to consider. First is the earliest involuntary retirement conditions (age and/or service) under which the Agency can separate an employee. The second would be the earliest conditions under which employees can voluntarily choose to retire. The ⁽¹⁹⁶¹⁾ final is the condition ^{as determined by} ~~at which all employees must retire mandatorily with exceptions at the request~~ of the Agency.

The current plan permits retirement at age 50 with 20 years of service and provides an immediate full benefit at that point. This ^{desir} probably derived from an earlier Agency conclusion that this type of a careerist is the individual that should be able to retire on full benefits. A review of the ^{retirement patterns} ~~various demographics~~ indicates that the system has worked quite well in promoting this type of career.

In studying the involuntary ^{mandatory eligibility} ~~limits~~, the main consideration should be the point at which an individual could be involuntarily retired on an immediate retirement benefit. This could be an unreduced or partially reduced benefit reflecting the fact that the decision is entirely within the purview of the Agency. ~~Presumably,~~ ^{even} this type of employee could receive a higher immediate benefit than a person who is voluntarily eligible to retire with the same service.

The mandatory retirement age would probably be at or near the current conditions. By this time the employee would probably be eligible for a full benefit in any event so the design of the benefit is not as critical. There should, however, be a clear statement as to the mandatory age and exceptions to that age.

The most significant of the three conditions is ^{eligibility} for voluntary retirement. This is the point at which the Agency decides that employees who want to leave should be able to do so on an immediate pension. If the pension is set, as it is currently, to provide level income after retirement then most employees will leave at that point. An alternative is to set an annuity that is at first reduced

but later paid in full. In this case the benefit will be there for those that leave but the bulk of employees will wait until the full retirement age.

One of the proposals being discussed would set the earliest retirement service at any age with 25 years with no retirement accruals after the 25th year. This implies that 25 years would be considered a full career for the Agency and suggests that employees would leave even more rapidly than under the current system because of the absence of future accruals.

The proposal we discussed would also provide a greater accrual rate for each year of service overseas. This was an option specifically discussed in my paper and has clear advantages ~~as to~~ over the current take it or lose it system.

The ^{proposed} system ^{we discussed} would also include a 401(k) plan. The system would permit high levels of employee participation so that employees could be free to, in effect, decide their own retirement system and fill in the gaps. Private sector systems permit employee contributions up to 17% of pay so that flexibility is in fact used and is often an attractive feature of such programs. It would be reasonable to use the 401(k) system within this context but I would caution against a reliance on such a system for a substantial part of the employee benefit because the money would have to be contributed by and invested for employees throughout their careers in order to produce reasonable income. It is unlikely that newly hired employees will want to save 10% or more of pay to meet future retirement needs.

When ^{the general} ~~these~~ retirement needs become more critical ^{at older age} then the accumulation will not permit a rapid ^{fund} build up. Thus, flexibility of employee participation can be introduced but should not be relied on extensively.

Through use of higher accrual rates in the 25 year provision and through some reductions, such as introducing a high-five rather than a high-three pay base, the new system could be designed to cost around the same as the current system for FBI employees. However, it must be recognized that unless the system were limited to selected employees as is the current Agency retirement system, the total cost of retirement for Agency employees would be greatly increased because all employees could participate.

Another point in the discussion was consideration of further flexibility in the ^{the design} ~~use~~ of voluntary, involuntary and mandatory retirement ages. It would certainly be possible to designate ~~key~~ ^{some} positions as having one set of retirement conditions and other positions as having other conditions. However, extensive use of such designations soon makes the retirement system unwieldy, costly and ~~very~~ difficult to explain. Our recommendation is that flexibility in the retention and retiring of selected individuals be left to the discretion of the personnel system within the overall framework ^{of} the retirement system. A retirement system can go a long way toward encouraging the ^{given} type of retirement and retention ^{given} ~~model~~ ^{model} that an agency may need but this can only be done effectively

in the general context and specific application to groups or individuals should be handled within that framework by the ~~Agency~~ personnel system.

In summary, the analysis already developed can be readily modified to determine the Agency cost and individual impact of ~~any~~ ^{any} proposal that the Agency might consider. At this point, I recommend that the Agency consider the preferred career path for each of the major categories of employee and we can then develop the most appropriate retirement system. Within this consideration, we recommend that the ^{employee} categories ^{with} for different benefits be as general as possible leaving small categories or specific individuals to the discretion of the personnel system.

Sincerely yours,

Edwin C. Hustead

Partner

FEDERAL EMPLOYEES ELIGIBLE TO RETIRE AT AGE 50
OR EARLIER WITH 20 YEARS OF SERVICE

Law enforcement (civil service)

Firefighters

Air traffic controllers

Foreign Service officers

Park Police

Secret Service personnel

Options for addressing these employees:

- Treat same as regular civil service employees.
- Provide special benefits--
 - A. Regular civil service benefits but no reduction for age.
 - B. Higher accrual rate.
 - C. Supplemental payments to age 62.
 - D. More generous 401k plan.

FAO

12/21/84

Options to Expand CIARDS Coverage to More People to CIA

Option I

- ° Eliminate participation requirement of completion of 60 months of qualifying service for CIARDS but retain it as requirement under CIARDS.
- ° Expand qualifying service for retirement to include all service under cover.
- ° Eliminate minimum participation age of 25.
- ° Allow participation in CIARDS upon EOD of all employees until determined they do not/will not perform sufficient qualifying service to retire under CIARDS (Determination made following completion of 15 years Agency service.)

What Will This Do?

This would reverse current procedure and provide greater protection from improper disclosure of employee affiliation and enhance management flexibility by maintaining internal controls for those individuals who will eventually retire under CIARDS. Names of individuals would not be provided to OPM on any employee until they retire, then only Civil Service retirees. Money would be transferred to OPM (without names) when it is determined an employee will not qualify for CIARDS retirement. This would not alter the benefit structure for either system but would provide significantly increased security protection.

Option II

Modify current CIARDS "qualifying service" rules in regulations.

- ° Change 60 months of qualifying service to 2 years or 3 years (rationale-increased risks in service abroad).
- ° Reduce minimum age eligibility from 25 to younger or eliminate it altogether.
- ° Consider all service under cover as qualifying service.

What Will This Do?

This would allow earlier participation in CIARDS; increase the number eligible, and increase the number who retire under CIARDS. This would expand number of people under CIA control.

Option III

Modify interpretation of what type of service is deemed qualifying for CIARDS.

The provision which appears to provide the most leeway is the one "Which requires the continued practice of tradecraft under conditions of most stringent security in support of Agency activities". The interpretation of this provision could be modified to allow for the crediting as "qualifying" all months of service under official or non-official cover.

What Will This Do?

- ° All new CT's go under cover upon EOD and would earn qualifying service from EOD and eligible for CIARDS (if 25 or over) in 5 years not the current average of 14.9.
- ° More CSRS types would qualify with combinations of O/S service and domestic cover assignments.

*Copy to
for Joe & return
this to me.*

Mr. Magee:

[Redacted]

called with comments on your testimony.

STAT

FROM CHUCK BRIGGS:

Page 2: Word excepted could be misconstrued. Suggest deleting that sentence (and I would add the word "consequently")

Page 5: This is the first mention of CIARDS: either as a parenthetical identification or refer to pages 7-8.

Page 6: I think it wise strategy to acknowledge that any U.S. Government employee overseas is vulnerable to terrorist attack. The unique factor is the growing trend which can be documented for terrorists to identify, specifically, CIA personnel in a hostage or other situation. A one sentence acknowledgement with cross reference to page 8 for Agency specifics could take care of it.

Q and A: Maybe the Committee will understand the responses on cost second paragraph. I don't.

FROM [Redacted]

STAT

Page 2, line 6: which exists because successive Congresses and Administrations were sensitive to...

Last line, same paragraph, lives in the intelligence shadows. Omit shadows because of the attitude of the Staff.

Page 3: Every employee from the highest to the lowest is investigated. More acceptable way is most senior to most junior.

Page 5: Top of page, use word conflicts instead of conflictual.

Page 5: Change ...until of an age to ...until they are mature enough to handle the knowledge responsibly.

DRAFT

1. In recognition of the unique personnel and security requirements of the Central Intelligence Agency (CIA), and in furtherance of its foreign intelligence missions and functions, the Director of Central Intelligence, notwithstanding ^{any} other provisions of law, shall have the sole and express authority to operate, maintain, and administer a Central Intelligence Agency Retirement and Disability System (the System) for all Agency employees, irrespective of their dates of hire or their coverage under any other federal retirement system(s) as of the date of enactment of this provision.

2. The Central Intelligence Agency Retirement and Disability System will provide for contributions, obligations, rights, and benefits for covered employees as follows:

(a.) in the case of members of the System not subject to Social Security (OASDI) coverage under Public Law 98-21, and who are currently under the Civil Service Retirement and Disability System, contributions, obligations, rights, and benefits equal to those under that System as it stands as of the date of enactment of this provision and as it may be amended from time to time;

(b.) in the case of members of the System not subject to Social Security (OASDI) coverage under Public Law 98-21, and who are not ~~W~~ designated or subsequently are designated as special participant members of the System, contributions, obligations, rights, and benefits equal to those under the CIAR Act of 1964 for Certain Employees, as amended, [as it stood as of the date of enactment of this provision];

(c.) in the case of members of the System subject to Social Security (OASDI) coverage under Public Law 98-21, contributions, obligations, rights, and benefits equal to those provided under otherwise applicable law to federal employees generally who are subject to such coverage.

3. The Director shall prescribe rules and regulations for the operation, maintenance, and administration of the CIARD System in accordance with the provisions of this Act and is authorized to make any and all determinations or rulings required to so operate and administer the System

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4. In the interests of the security of the foreign intelligence activities of the United States and in order further to implement the proviso of section 102(d) (3) of the National Security Act of 1947, as amended (50 U.S.C. 403(d) (3)), that the Director of Central Intelligence shall be responsible for protecting intelligence sources and methods from unauthorized disclosure, and notwithstanding the provisions of the Administrative Procedure Act (5 U.S.C. 551 et seq.) or any other provisions of law, any determinations by the Director authorized by the provisions of this Act shall be deemed to be final and conclusive and not subject to review by any court.

5. There is hereby established a fund for the CIARD System to be known as the CIARD Fund which shall be maintained and administered by the Director. The CIARD Fund is referred to hereafter as the fund.

6. (a.) The Director shall prepare the estimates of the annual appropriations required to be made to the fund, and shall cause to be made actuarial valuations of the fund at intervals of five years, or oftener if deemed necessary by him.

(b.) Any statute which authorizes--

(1) new or liberalized benefits payable from the fund, including annuity increases;

(2) extension of the coverage of this Act to new groups of employees; or

(3) increases in salary on which benefits are computed is deemed to authorize appropriations to the fund to finance the unfunded liability created by that statute in thirty equal annual installments with interest computed at the rate used in the then most recent valuation of the System and with the first payment thereof due as of the end of the fiscal year in which each new or liberalized benefit, extension of coverage or increase in salary is effective.

(c.) There is hereby authorized to be appropriated to the fund each fiscal year such amounts as may be necessary to meet the amount of normal costs for each year which is not met by contributions under pertinent law.

(d.) There is hereby authorized to be appropriated to the fund each fiscal year such sums as may be necessary to provide the amount equivalent to (1) interest on the unfunded liability computed for that year at the interest rate used in the then most recent valuation of the System, and (2) that portion of disbursement for annuities for that year which the Director estimates is attributable to credit allowed for military service, less an amount determined by the Director to be appropriate to reflect the value of the deposits made to the credit of the Fund for such service not to exceed 100 per centum of such amount for the fiscal year in which this Act is enacted and for each fiscal year thereafter.

7. The Director may, with the approval of the Secretary of the Treasury, invest from time to time in interest-bearing securities of the United States such portions of the fund as in his judgment may not be immediately required for the payment of annuities, cash benefits, refunds, and allowances, and the income derived from such investments shall constitute a part of such fund.

14 May 1985

Subject: Possibility of modification of prerequisites for participation in CIARDS to permit earlier coverage and or expanded numbers of Agency employees in the CIARDS.

Reference: Indication by OMB that they would support expansion of coverage for more Agency employees under CIARDS

Basic provisions of the CIARDS law and CIA rules and regulations relative to participation

- ° Section 203 of the Act establishes broad authority for the DCI to designate as CIARDS participants such Agency officers and employees whose duties are determined by the Director to be (i) in support of Agency activities abroad hazardous to life or health or (ii) so specialized because of security requirements as to be clearly distinguishable from normal government employment.

- ° Because of the broad latitude written into the law, the then Congressional Oversight Committees (Armed Services) prescribed in the CIARDS Act (Section 201) that the DCI may prescribe Agency rules and regulations for CIARDS for a "limited number of employees", such rules and regulations would become effective after approval by the Chairman and ranking minority members of the Senate and House Oversight Committees.

As a result of this provision, CIA rules and regulations relative to prerequisite for CIARDS participation are much more restrictive than the basic statutory provisions (i.e. Section 203) contained in current law.

Strategy

- ° Best strategy would be to convince the Intelligence Oversight Committees to support modification of current CIA rules and regulations to permit earlier and expanded participation of Agency employees in CIARDS so that needed security/administrative controls can be established internally within the Agency.

- ° This approval would permit attainment of our objective to strengthen internal and external security protection and internal work force management through simple administrative changes in CIA's rules and regulations for CIARDS and not require any change in existing legislation nor require any new legislation.

Basis for arguments for need to modify prerequisites for participation

- ° Emphasis must be on:
 - (1) Need to strengthen security protection of foreign intelligence activities of the United States in accord with statutory responsibility of the DCI for protecting intelligence sources and methods from unauthorized disclosure.
 - (2) Need to strengthen management/administration capabilities of the DCI in controlling the Agency work force.
- ° Avoid arguing need for "better benefit" rewards.

Possible Thrust of Arguments

- ° Build on evaluation of intelligence world of the 1980's as being substantially different from the 1960's cite the list of examples such as increased security concerns relative to protecting Agency activities; cover entities (domestic and abroad); personal protection of employees and families serving abroad in face of increased hazards to life and health world-wide; high number of CSRS covered people serving abroad and under cover.
- ° Point out that all new Agency employees are covered under CSRS with high numbers performing service in operational environments for substantial period before qualifying for CIARDS under current rules.

While percentages of each new entry group who will perform sufficient service to eventually qualify for CIARDS is known, it is not possible to identify which specific individuals will perform this type of service until later in their career.

- ° Argue that processing of casualty cases (retirement, life insurance, Social Security) for non-CIARDS people through normal non-CIARDS channels raises serious problems re: protecting identities and DCI's ability to fulfill his responsibilities under Title 50 USC Section 403 to "protect the interests of the foreign intelligence activities of the United States" use arguments of proliferation of records of CIA people held in other Agencies; expanded automation that will permit uncontrolled access to computer systems between agencies such as OPM, IRS, Social Security and Bureau of Employee Compensation and other agencies that are handling health and life insurance claims or doing studies (such as V.A. and Social Security) on numbers of people drawing disability benefits and retirement benefits or conducting demographic studies on a range of areas of sociological interest (income levels, tax brackets, geographic distribution, etc.)
- ° Need for the retention and administration of a single unified work force within CIA and maintenance of a single set of rules applicable to all CIA employees with "sets" of special provisions applicable to CIARDS types and non-CIARDS - whether hired before or after January 1984-is needed to maintain cohesiveness of the total force.

Agency employees have and will recognize two-tiers of retirement and other entitlements based on overseas service and/or abnormal types of service.

Left to chance CIA could be faced with having four different sets of retirement systems (old CSRS, old CIARDS, new CSRS and new CIARDS covering categories of people whose only difference is their date of employment with CIA.

CIA's retirement systems must continue to serve as work force management mechanisms in maintaining effective force to do CIA jobs.

Options to Expand CIARDS Coverage to More People in CIA

(See attached)

*Retirement
Task Force
Report*

REPORT ON RETIREMENT PROGRAM NEEDS OF THE CIA
FOR THE 1980's AND BEYOND

Prepared by:
Director of Personnel's Task
Group on Retirement

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I. INTRODUCTION

Research and Study of CIA's Retirement Program Requirements

Pursuant to the passage of Public Law 98-21 "Social Security Amendments of 1983" the Senate and House retirement committees and the Office of Personnel Management have been engaged in studies leading to the future development of new retirement provisions for Federal employees. Concurrent with these efforts the CIA undertook comparable studies of retirement systems in Government and the private sector and also a series of comprehensive collateral studies on the CIA environment of the 1980's and beyond to determine current and continuing retirement program needs of the Agency to support attainment of the CIA organizational objectives.

The focus of these studies was concentrated on five major areas:

1. An overview of the status of CIA as a "civil service" Federal Agency and its current retirement systems;
2. The role requirement of CIA's retirement systems in serving the needs of the Agency;
3. Impact of the CIA's mission and functions on:
 - a. current working environment demands imposed on the different employee groups doing the varied day to day work of the Agency;

b. Workforce management features required of retirement systems in the Agency to effectively accomplish CIA's organizational objectives.


4. Scrutiny of the effectiveness of CIA's current retirement system (e.g., both CSRS and CIARDS) coverage; surface any disfunctions in the current coverages; and, to identify adjustments needed to improve the utility of the retirement programs in accomplishment of the Agency's critical missions.

5. Development of a model CIA retirement plan designed and tailored to provide the most effective management tool possible to Agency management in maintaining the type and quality of work force to perform the varied work of the Agency.

The results of these efforts are summarized in the subsequent sections of this report.

II. Overview of the Status of CIA as a "Civil Service" Federal Agency and its Current Retirement Systems

A. Status of CIA. CIA is an "excepted" U.S. Government Agency. All new employees, therefore, are hired under the statutory authority of the Director, Central Intelligence Agency and do not gain Civil Service status through Agency employment. In this capacity, CIA employees are statutorily excluded from tenure and are also excluded from the protections and benefits derived by status under regular Civil Service law and the rules and regulations promulgated by the Office of Personnel Management. The CIA, because of its mission, operates in a continuously dynamic and necessarily flexible mode in response to changing world conditions and priorities. CIA's intelligence careerists must be versatile, vigorous, adaptable to frequent change, and subject to serving when and where Agency management needs their particular talents. These conditions, while excluding CIA employees from certain entitlements afforded regular Federal Civil Service employees, are necessary and compatible with the Agency mission and needed organizational effectiveness in the intelligence environment.

B. CIA's Retirement Systems. Currently the CIA operates with  two retirement systems; the regular Civil Service Retirement System and the CIA Retirement and Disability System, a separate statutory system instituted in 1964. Individuals who qualify for participation and retirement under CIARDS are those who serve in support of the operational side of the Agency.

1. The CIA Retirement and Disability System

In 1964, Public Law 88-643 was enacted establishing the CIA Retirement and Disability System for certain employees. The "certain employees" cited in the Act refer to Agency employees who serve in support of the operational aspects of the Agency's activities.

Congress established this independent system on the basis of recognition of the unique security and working environment factors flowing from the CIA operational mission and the need to provide a special managerial mechanism to recruit and maintain a high-quality, young, and vigorous work force to conduct the operational activities of the Agency.

Congress also provided provisions for early retirement eligibility and a mandatory retirement age to permit separation of employees prior to burn-out and before continued employment becomes detrimental to the best interests of the Agency.

The Act established the administration of CIARDS under the Director of Central Intelligence (DCI) in consonance with the DCI's statutory responsibility for protecting intelligence sources and methods.

Internal administration of CIARDS provides protection of the identities of CIARDS participants serving under varying types of both official and non-official cover; maintains employee accounts in the CIARDS fund securely within the Agency and, upon retirement, provides for the secure payment of benefits to CIARDS retirees, many of whom are prohibited from revealing any affiliation with CIA or even the U.S. Government.

Approximately 20% of CIA's employees are participants in CIARDS with another 25% of the Agency's Civil Service employees performing the type of career service which will eventually qualify them for CIARDS coverage.

Participation in CIARDS requires a minimum of five years of qualifying service. "Qualifying service" is service in support of Agency activities abroad hazardous to life or health or so specialized because of security requirements as to be clearly distinguishable from normal Government employment.

Most of the general provisions of CIARDS are similar to those of the regular CSRS but provide special authority for early retirement with non-reduced annuities at levels slightly higher than the regular Federal Civil Service for participants at age 50 with at least 10 years of CIA service and 20 years of Government service and mandatory retirement at age 60 (with limited exceptions reserved to the Director's authority). Annuity accrual levels for the special Civil Service categories such as law enforcement, fire fighter personnel, and air traffic controllers are 20% higher than those provided by the CIARD System.

2. The Civil Service Retirement System

From CIA's inception in 1947 to the current time, all new appointees to CIA, regardless of the nature or location of their assignment, are initially covered by the basic CSR System. This coverage provides the same death, disability and longevity benefits as provided Federal employees in routine domestic Federal agencies (agriculture, labor, etc.) This basic coverage continues until the individual serves a minimum of five years of "qualifying service" for CIARDS. In the case of typical career operations officers, this means a minimum of six to eight years of service with at least two overseas tours, in high personal-risk and

stressful environments with only regular CSRS coverage before accruing sufficient qualifying service for the slightly preferential CIARDS coverage.

Approximately 25% of CIA's Civil Service covered employees are currently performing the type of service which will eventually qualify them for CIARDS participation. At the current time, approximately 62% of current overseas assignees are CSRS participants. The remaining 55% of the Agency's CSRS covered employees, can expect to retire under regular CSRS retirement. Even within this grouping, many will be called upon, when CIA requirements demand, to perform some periods of service deemed "qualifying" for CIARDS, but of insufficient duration to ever qualify for CIARDS membership.

3. Role Requirement of CIA's Retirement Systems in Serving the Needs of the Agency

The selection of the provisions of retirement system coverage within an organization must be recognized as one of the most vital decisions facing any organization.

A retirement system must be designed in the context of organizational missions and the provisions of the system must be fully compatible with the nature of the work

environment, the characteristics of the work force requirements, and the managerial requisites to attain organizational goals.

Comparisons of the design and provisions of retirement programs installed in one organization vis a vis another must include evaluation of the commonality and lack of commonality of the organizational missions, the characteristics of work force, and personnel management requirements that these realities generate.

Where lack of commonality is evident, it is impractical to expect that a retirement program--effective in meeting the needs of one organization--can simply be adopted by another without the probability of serious disruption of that organization's capacity to effectively meet its organizational objectives.

The missions and functions of most Federal agencies and private sector companies are such that extended term career employment is of no managerial consequence or is considered desirable and encouraged. Disincentives for early retirement are usually incorporated in the eligibility and benefit provisions of the retirement programs of many private sector plans in this category. In these circumstances the retire-

ment program is perceived primarily as a mechanism for providing post-employment financial security for their aging pensioners.

Organizations, such as the FBI, FAA, and the military, whose missions and functions require the recruitment and retention of a highly vigorous and relatively young work force on a comparatively short but full-term career basis, must have a retirement system with provisions which provides voluntary and involuntary early retirement authority for work force management reasons. In these circumstances, organizational management utilizes the retirement system primarily in its context as an essential work force management tool to support fulfillment of organizational objectives. While the importance of the social aspects of benefit pay offs is also recognized and important, the payment of relatively attractive retirement benefits in themselves is an important element in attaining managerial objectives.

In the CIA, retirement systems must function as critical elements of the Agency's personnel management system in maintaining the type and quality of work force essential to accomplishment of its national foreign intelligence missions.

It is vitally important that the provisions of future retirement program coverages within the CIA are fully compatible in serving the Agency's needs as a management tool that will encourage recruitment and permit retention of the vigorous career cadres required to do the work of the Agency through their most productive years and then be retired before their employment becomes detrimental to the best national security interests of our country.

III. Impacts of the CIA Mission and Functions on Employee

Working Environment and Work Force Management Requisites of the Agency's Retirement Systems

A. General Overview

The intelligence work world of the 1980's continues to carry with it the heavy and unrelenting personal and managerial stresses and pressures long associated with foreign intelligence functions; but, in addition, presents a significant difference from earlier decades with the emergence and increasing impact of organized international terrorism under the sponsorship of Government; hostile to the United States. ✓

The grim increase in the loss of life, injury and capture of CIA personnel in recent time frames, makes it painfully obvious that overseas service with the CIA is extremely dangerous and stressful to assignees and their families in "friendly" areas of the world and severely exacerbated in hostile environments. At the present, an anomalous situation exists in which employees serving overseas suffering the same threats, risks and disadvantages are covered differently in their retirement benefits depending on whether they have sufficient qualifying service for the preferred CIARDS coverage.

This inequity is stark when, as previously noted, approximately 62% of CIA's overseas assignees are only covered by regular CSRS retirement benefits.

The increase, and regrettably the expectation, of the continuing incidence of CIA casualties abroad in the ongoing future presents mounting security requirements to ensure protection of the identities of sensitive CSRS and CIARDS personnel and their families throughout their working careers and after retirement and in the secure handling of death and/or disability benefits outside of Agency channels. Specific problems are foreseen in assuring secure processing of casualty benefits for CSRS and CIARDS-covered employees hired on or after 1 January 1984 who may be eligible for Social Security benefits. Under current jurisdictional authorities, CSRS cases have to be handled by the Office of Personnel Management (OPM) through the Social Security Administration with exchanges of detailed information on the individual and circumstances of death or disability to adjudicate claims and preclude the possibility of dual benefit payments. The risk of disclosure of security sensitive information to unauthorized individuals under these circumstances is of considerable concern to the CIA.

B. Working Environment Factors Applicable to All CIA Personnel

All CSRS and CIARDS CIA employees have access to security sensitive and highly classified national security information.

All employees, therefore, are subject to the same stringent security clearance standards. This includes polygraph examination as part of initial clearance processing and periodic repolygraphing and reinvestigation at scheduled intervals throughout their careers, a requirement not required of regular Government Civil Service applicants and employees.

Civil Service and CIARDS employees assigned to certain activities and locations (both domestic and overseas) are required to live under cover for the duration of such assignments. Protection of such cover imposes unique social restrictions and additional security burdens on such individuals that are not required of Federal employees in "normal" Governmental employment.

All employees and former employees are required to submit all writings or outlines of oral presentations, including fiction, which deal with intelligence activities for prior review, modification and approval before publications.

All employees, including fully overt personnel, must upon separation, receive security approval of descriptions of work performed while employed by CIA for use in subsequent job applications or interview. Security considerations may require deletions of substantial blocks of experience which would be attractive to future employers.

Page Denied

The nature and conditions of operations work in itself leads to relatively early employee "burn-out" diminishing their effectiveness.

Operational and physical environments abroad demand sustained high motivation, courage, good health, adaptability, and vigor in these employees.

2. Work - Management Requisites - CIARDS

CIARDS, as a management mechanism, has been woven intimately into the personnel management system of the operational cadre and its supporting elements.

It has contributed most effectively in fulfilling such essential managerial needs as follows:

- ° Provides the Agency with a secure mechanism for the Administration of retirement affairs for members of the CIARDS.
- ° Enables the Agency to recruit and retain the type and quality of work force essential to fulfilling critical work requirements and the capability for timely retirement of those individuals who have passed their peak performance. Mandatory retirement at age 60 and voluntary early retirement (50 with 20 years) without penalty reduction of benefits are essential contributors to meeting managerial

objectives of keeping the operational cadre fully effective; permits the flow-through of new employees providing opportunities for employee developmental assignments; timely promotions; and in meeting reduced personnel ceilings when required. If the mandatory and voluntary retirement eligibility ages were to be extended and current annuity levels reduced for CIARDS, severe problems would be created in terms of an unacceptable aging of the overall operational cadre; the diminution of vigor and adaptability among its ranks and increased difficulty in arranging cover. Effective management of the cadre would be severely weakened in terms of attracting recruits in the first place; the creation of severe blockages in essential flow-through assignment opportunities within the ranks; promotion; and timely retirement.

D. Working Environment Factors and Work Force Management

Requisites Applicable to CSRS-Type Employees

1. Working Environment Factors - CSRS

Civil Service employees who are assigned in support of the Agency's operational activities abroad perform these services under the same extremely stressful and hazardous

conditions as those individuals who have already qualified for CIARDS. Typically, these personnel serve approximately six to eight or more years before accruing sufficient qualifying service for the special provisions of CIARDS. During this period they and their dependents are covered under the regular Civil Service disability and death benefit provisions.

Employees, such as Intelligence Analysts and Administration Specialists, who spend their Agency careers in overt domestic assignments are not exposed to the special employment conditions encountered by CIARDS and pre-CIARDS personnel. However, these careerists are subject to the unique conditions common to all Agency employees cited previously in this report that are clearly atypical of "normal" domestic Federal employment.

In addition, the nature of current intelligence work with the critical national interest of its product, brings with it a continuing plethora and relentless volume of critical priorities, short deadlines, and serious national security consequence of error.

These factors create continuous stress, attrition of effectiveness and patterns of burn-out at ages somewhat older than those in the operational milieu; but, nonetheless at relatively young ages.

2. Work Force Management Requisites - CSRS

(a) CSRS Employees in Non-Operational Activities

Just as the special management requirements of the Agency's clandestine service have been effectively accommodated through the CIARDS mechanism, the provisions of Civil Service retirement, particularly the early optional retirement feature with non-reduced annuities at 55 with 30 years of service, have proven to be most effective tools for Agency managers in accommodating the different but equally important requirements served by CIA's analytical, scientific, and support cadres by providing:

- Recruitment inducement in the face of intense competition with the private sector, where higher salaries are frequently available, of the best expertise in a broad spectrum of professional disciplines and fields of specialization.
- Predictability of the projected patterns of the timing and numbers of future retirements that enable Agency managers to establish employee career development, progression, and replacement on a definitive basis.

- Retention of substantive analysts, scientific and technical experts, and administrative specialists through their most productive years with sustained currency in their areas of expertise and state of the art.
- Capability of managers of these non-operational cadres to encourage voluntary retirement at appropriate combinations of age and service compatible with organizational needs.

(b) CSRS Employees Supporting Operational Activities

As previously cited in the "working environment factors" in the previous section of this report, serious problems currently exists as regards to those Agency CSRS-covered employees who are serving in support of operational activities.

The managerial problems are of two dimensions. The first is the obvious inequity of CSRS and CIARDS-covered employees serving in the same locales under the same stresses and hazards but with different benefit protections.

The second is the need to establish fully secure mechanisms for protecting identities of sensitive CSRS

personnel during their employment and post-employment
years and to assure secure processing of casualty
benefits which now must be processed through non-CIA
controlled channels.

IV. Effectiveness of CIA's Current Retirement System in Serving Agency Needs

A. General Perceptions

The basic design and structure of CIA's retirement systems, both as regards CIARDS and CSRS, have served the Agency well in providing CIA management with effective management tools in maintaining the type and quality of the overall work force essential to accomplishment of vital operational and substantive intelligence objectives.

The current provisions of CSRS and CIARDS, fully integrated into CIA's personnel management systems, provide the needed managerial flexibility to support the different requirements of the employee cadres (e.g., the domestic career Civil Service and CIARDS) serving within the Agency. The different work environment and management implications of each of these employee groups have been effectively served by the different "sets" of retirement provisions applicable to each category.

The key design feature relative to effectiveness of both the CIARDS and CSRS are that both systems are based on defined-benefit plans which establishes a predictable level of benefits at future points of time and permits definitive-manpower planning and managerial action (employee development, advancement, replacement, and voluntary or involuntary retirement).

Key provisions of both systems that are critical to sustaining their managerial utility are:

- Retention of current non-penalized early retirement eligibility criteria specific for career CIARDS and CSRS personnel
- Involuntary/discontinued service retirement on an immediate annuity for CIARDS and CSRS members.
- Mandatory retirement at current statutory age for CIARDS members.
- Annuity accrual rates at levels sufficient to attract and retain the needed type and quality of work force and make retirement feasible at combinations of age and service when the needs of the Agency determines it necessary.
- Establishing equitable cost and benefits for pre-1984 and post-1983 employees.
- Reasonable cost-of-living adjustments for annuitants as a further inducement for retirement when CIA management prefers employee leave the service.
- Sufficient Government funding/financing levels to sustain the types of retirement systems necessary to maintain the characteristics of the work force essential to meeting mission requirements.

Elimination or weakening of the defined-benefit plan as the primary base for annuities, extension of current age/service retirement eligibility and/or reduction of annuity accrual rates would inflict mortal wounding of CIA's capability to maintain the caliber of work force needed to meet critical national intelligence requirements.

B. Specific Adjustments Required

While the effectiveness of the overall design and basic structure of the current systems have been reaffirmed and must be retained, the evolution of changes evident in the intelligence work world of the 1980's and the mandatory Social Security coverage of post-1983 employees presents new sets of circumstances and complicated technical requirements that must be accommodated.

These may be summarized as follows:

1. Equitable Treatment of All CIA Employees, Whether CIARDS or CSRS, Serving in Support of the Agency's Operational Activities

- ° All Agency employees serving in locals or under conditions defined as qualifying for CIARDS participation should be provided special "preferred" benefit coverage for the duration of such service.
- ° Agency employees who perform sufficient qualifying service for CIARDS participation should be provided

basic retirement benefit coverage somewhat higher than employees whose primary career assignments are non-operational in nature.

2. Administration of Retirement Benefits with Full Security

Secure mechanisms and authorities for processing retirement-related benefits for sensitive employees must be established to fully support the DCI in carrying out his statutory responsibility under Title 50 USC 403 for protecting intelligence sources and methods from unauthorized disclosure. Specific concern in this regard is the processing of casualty benefits for sensitive CSRS-covered employees hired on or after 1 January 1984 who are eligible for Bureau of Employee Compensation, CSRS, and Social Security benefits.

3. Integration of Retirement System Benefits with Social Security Benefits

Equitable treatment must be established for aggregate costs and benefits for pre-1984 and the post-1983 Social Security covered employees.

Similarly, the provisions applicable to post-1983 employees (both CSRS and CIARDS) must be so tailored to

produce the same results as the current systems as regards utility of the new coverages to Agency management.

Methodologies must be instituted to provide for integration and offsets required between entitlements for earned benefits under both systems.

V. Primary Features of a Model Retirement System that Would Most Effectively Meet CIA's Needs

A. Design Requirements

1. Establishment of a Single CIA Retirement System Administered Under the Authority of the Director of Central Intelligence

The current CIARD System is administered by the Agency with current CSRS administered by OPM. Since new special "supplemental" systems must be instituted in 1985 by Congress for Social Security-covered CSRS and future CIARDS employed by CIA, it is foreseen, unless other action is taken, that the CIA would be faced with living with four different retirement plans, administered under difficult jurisdictions.

The combining of the administration of all plans, with appropriate sets of common and special provisions applicable to meet the different requirements of each employee category would enhance security/cover protections and greatly minimize the administrative problems caused by individuals shifting among systems (e.g., CSRS who qualify for CIARDS, etc.). Legislative approach could be through amendments to the current CIARDS law.

2. Establishment of Fund

A combined CIA retirement fund should be established to maintain integrity of all subsystem categories for the future.

Provisions would be required to authorize "take out" from the CSRS fund of all Government and employee contributions and transfer of such funds to the combined CIA retirement fund.

3. Emphasis on Defined Benefit Plan as Primary Source of Annuities

Primary emphasis on a defined-benefit plan which promises a specified level of retirement income when employee met age and service criteria is essential to maintenance of the system as an effective management system controlling the work force.

A defined contribution plan (including a Voluntary Capital Accumulation Plan [VCAP]) cannot provide a guarantee of future benefit levels and would weaken its effectiveness as a management tool should it be established as the primary annuity source.

However, the institution of a VCAP as an augmentation mechanism would provide additional strength to the total system.

B. Primary Provisions Required**AGENCY PROPOSAL (SINGLE SYSTEM UNDER DCI AUTHORITY)**

	<u>CIARDS</u>	<u>CIVIL SERVICE</u>
1. Optional Retirement Eligibility	Age 50 w/20 Service (Non-Reduced Benefit)	<ul style="list-style-type: none"> ° Age 55 w/30 years service ° Age 60 w/20 years service ° Age 62 w/5 years service (Non-Reduced Benefit)
2. Accrual	<ul style="list-style-type: none"> ° 2 1/2% for qualifying years of serv ° Current CIARDS formula (2%) for all other years of service (Non-Reduced Benefit) 	<ul style="list-style-type: none"> ° 2 1/2% for qualifying years of service ° Current CSRS formula (1.5%, 1.75% etc.) for all other years of service (Non-Reduced Benefit)
3. COLA	2/3 Indexing**	2/3 Indexing**
4. Mandatory Retirement	<ul style="list-style-type: none"> ° Age 60 ° Age 65-SIS 4 and above 	None
5. Involuntary Retirement	<ul style="list-style-type: none"> ° Any age w/25 years service ° Age 50 w/20 years service (Non-Reduced Benefits) 	<ul style="list-style-type: none"> ° Any age w/25 years service ° Age 50 w/20 years service (Benefits Reduced 2% for each Year Under Age 55)
6. Annuity	High-5 Average Salary**	High-5 Average Salary**
7. Employee Contributions	<u>Pre-1984</u> <u>CIARDS & CIVIL</u>	<u>Post 1983</u> <u>CIARDS & CIVIL SERVICE**</u>
° Basic	9%	3.3%
° Soc Sec	---	5.7%*
° VCAP	Voluntary	Voluntary (Up to 15% of basic pay Government matches \$.50 for \$1. up to 6% of basic pay

